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ABSTRACT

Some of the effects of inflation and pricing policies on college costs are discussed, and it is shown that rising college costs have a negative effect upon student opportunity and access. Continual escalation of tuition and fees can lead to a shrinking of the higher education enterprise. Federal efforts (and state efforts to the extent that they deal with direct student aid programs) have been remedial: how to help students after the college tuition and fees have gone up. Government attention has not focused on how to keep college costs down. The present student aid strategy to assist students should be based on low tuition, grants, and work/study. Low tuition is not need-based; it is efficient because it does not require the bureaucratic procedures and costs of need-based aid, and it has been demonstrated to be effective. Government reliance on student loan programs is suggested to be particularly troublesome because of the costs involved in administering the program, and because the philosophical basis of the loan program negates the benefits that society receives from higher education and its graduates. (Author/PHR)

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SUMMARY: "The Effects of Inflation and Pricing Policies on College Enrollments"

Allan W. Ostar, Executive Director
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The continuation of escalting college costs.

Rising college costs have a chilling effect upon student opportunity and access. Continual escalation of tuition and fees can lead to a shrinking of the higher education enterprise. To date, federal efforts (and state efforts to the extent that they deal with direct student aid programs) have been remedial: how to help students after the college tuition and fees have gone up. Government attention has not focused on how to keep college costs down. In fact, the present student aid strategy may encourage increases in college costs. The government strategy to assist students should be based on low tuition, grants, and college work/study. Low tuition is not needs-based, however, it is efficient because it does not require the bureaucratic procedures and costs of needs-based aid; and it has been demonstrated effective. Government reliance on student loan programs is particularly troublesome because of the costs involved in administering the program, and because the philosophical basis of the loan program negates the benefits that society receives from higher education and its graduates.

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THE EFFECTS OF INFLATION AND PRICING POLICIES ON COLLEGE ENROLLMENTS

College Entrance Examination Board
New York, New York
October 20, 1978

Allan W. Ostar
Executive Director
American Association of
State Colleges and Universities

Good afternoon. You have been dealing with many critical issues today. From my perspective one of the most critical I want to discuss here is the effect of pricing policies on college enrollments. The issue here is the chilling effect that rising college costs have on student opportunity and access.

I don't think there is any question that rising costs are a national concern. Most of the activity at the national level--the new Middle-Income Student Assistance Act, the now dead tuition tax credit, the revived student loan bank proposals, the increased appropriations for student aid--is an attempt to deal with rising college tuition costs. Those items I just ticked off, and particularly the federal and state student aid strategies now being pursued, are after-the-fact measures. They are attempts to deal with the results of rising tuition and other costs of attending college. The intriguing question posed for this session is "Are there alternatives to raising fees?"

As I see it, there are basically two alternatives. One, increase support for our colleges and universities from state, federal, and private sources--so that institutions can subsidize instructional costs to the point of putting a ceiling on tuition increases. And two, start closing colleges and universities.

The continued escalation of tuition and fees, could lead, I think, to a shrinking of the higher education enterprise as we now know it. It could become a new era of restraint and diminished expectations for equal opportunity, certainly a far cry from the promise and vision of the era that was opened by the G.I. Bill and the growth of public higher education. Those developments were predicated upon the affordability of college, upon the existence of low tuition.

To a great extent, College Board officials have ignored the issue of low tuition in publications and conferences which explored almost every other aspect of financing and opportunity. Occasionally, spokesmen have been featured who explicity oppose low tuition and favor federal and state policies to encourage or mandate higher student charges. Rarely, I believe, have spokesmen who strongly favor low tuition played a major role in the College Board's presentations. Yet, low tuition is by far the single most important form of student aid in higher education.

Let me make a few observations about low tuition and educational opportunity. Approximately 80 percent of all college students attend public universities, colleges, and community colleges. In many states the percentage is much higher; in all states it is very high if one tallies state residents attending college in their own state. Altogether, some 9 million full-time and part-time students attend public institutions, including a very large percentage of lower-income students and Black and Hispanic students.

Public higher education, whose revenue structure is based on the historic assumption that the state should subsdize the instructional costs of students to make higher education affordable, has thus been very effective in providing access.

The relationship between low tuition and access has, I think, been substantiated. The University of Wisconsin system in 1973-74 carried out one of the few experiments ever made in this country to actually study the effect of tuition changes on enrollment. The state lowered tuition sharply at two of the two-year centers of the Wisconsin system--from $429 a year to $80 a year--while holding tuition constant at all other two-year centers. The result: an enrollment increase of 47 percent at one center and 23 percent at the other. For every one percent reduction in the total cost of attending low-fee centers there was a 1.3 percent increase in enrollment. Studies of the additional students attending these centers revealed that for the most part they would not have attended any other college. In other words, the centers were not "taking away" students from any other college, but enrolling those who otherwise could not have attended at all.

Data for Vietnam veterans attending any college by state are revealing. Generally, their attendance rates follow the same pattern as that for high school graduates. In states with low tuition and geographic accessibility to college, such as California and Arizona, a very high percentage of Vietnam veterans and high school graduates have gone to college. In high tuition states, such as Vermont, and those without easy geographic access to a low-tuition college, a much smaller percentage of veterans and high school graduates have attended.

The Educational Testing Service studied this pattern and came to the conclusion that access to low-tuition colleges is the principal reason why many more veterans go on to college in some states than in others.

Low tuition is not a needs-based form of student aid. For more than 100 years, a large majority of American people have held that the benefits of distributing this subsidy equally, as with public elementary and secondary education and many other public services, far outweighed the costs. Here I refer not only to the benefits which each generation has made available to the next, but also to the benefits accruing to society.

It should not be necessary to argue that higher education has societal as well as individual benefits. However, I mention this point because some of those advocating radical changes in the financing of higher education neglect, if not contradict, the importance of higher education to society. For example, one of the arguments that John Silber puts forth for his Tuition Advance Fund plan is that students get most of the benefits from higher education, therefore they should pay a much larger share of the costs. For those who may have doubts about the economic, social, cultural, and other benefits of higher education to the whole society, I recommend Howard Bowen's outstanding work, Investment in Learning.

In addition to being effective, low tuition also is an efficient form of student aid with certainly fewer administrative worries and costs than more restrictive forms of student aid. It requires no forms, no means test, no formulas, and no collection procedures. Far from being a gift, the money is recovered in the higher taxes paid by the more highly educated. They pay back the costs of their education many times over.

Thos of us who support low tuition are very much aware that, alone, it does not meet enough of the costs that many people have in attending college. We are aware of constantly rising living costs--which public college students must pay in full, as do private college students. We are painfully aware of tuition increases, especially in some northwestern and middle western states. We are aware that lower-income and many middle-income students need student aid as well as low tuition. I know of no public college spokesman who opposes the expansion of student aid. Public college leaders joined unanimously with private college leaders in working aggressively for the present federal student aid programs, including the major new increases which should come with the Middle Income Student Assistance Act.

But there is a major difference between public and private colleges which is not addressed by the federal student aid strategy, or the growing interest in expanding state student aid programs. Low tuition, of course, is made possible only by institutional support. A student aid strategy alone does much less proportionately to help the 80 percent of students in public colleges than the 20 percent in private and proprietary schools. And it does nothing to help hold tuition down.

Indeed, there are many problems with a federal strategy which places excessive reliance on student aid, and even more problems with a state student aid strategy.

One problem is that student aid funds may be diverted from institutional support, causing public tuition to rise. This is the policy explicitly supported by Chester Finn and David Breneman in the recent book Public Policy and Private Higher Education. One of the principal contributors, Robert Hartman, urges that federal policy be used deliberately to encourage state governments to act in this manner.

Another problem is that an over-emphasis on student aid as the sole solution to opportunity can lead to pressures on state governments and both public and private colleges to raise tuition. The assumption is that "student aid will take care of those really in need." This argument was used in New York to justify the imposition of tuition at the City University of New York, and is being used in other states. The argument is not a sound one, as a study at the University of Tennessee revealed a year ago. The University found that a $100 increase in tuition would have resulted only in an additional $26 in BEOG assistance for the average BEOG recipient. The low income student would have to pay the remaining $74 of the tuition increase. Further as only 13 percentof the University of Tennessee students were receiving BEOG grants, the other 87 percent of the students would have paid the entire tuition increase. The same pattern would apply at most other public colleges, especially as the half-cost limitation in BEOG prevents even very poor students from receiving aid equal to more than half of any increase in tuition or other charges.

Every tuition increase also falls very hard on the large number of students in the roughly $13 J to $25,000 income group who received relatively little federal aid in the form of grants or work-study. Of course, the new Middle-Income Student Assistance Act, will provide more aid to students with nigher family incomes, but the burden of rising costs, including tuition, will continue to fall quite heavily on such students and their families.

An over-emphasis on a student aid strategy, especially loan programs, also has been accompanied, as we all know, by growing charges of fraud, abuse, waste, an ever-tightening set of regulations, and a growing army of bureaucrats, investigators, and bill collection agencies.

As Bruce Johnstone stated in the College Board publication Student Loans: Problems and Policy Alternatives, student loans are a very costly as well as inefficient way to help students. He estimates that it costs the taxpayer about $54 out of every $100 loaned under the National Direct Student Loan program, and about $41 of every $100 loaned under the Guaranteed Student Loan program. This includes the costs of administration, subsidies, and defaults.

Given the incredible complexity, bureaucracy, and inevitable waste that accompanies loan programs, and the bad name they can give to both students and colleges, however undeserved, there is every reason to place maximum emphasis on low tuition, grants, and work-study.

I already have mentioned John Silber's Tuition Advance Fund, which has received support from Senator Edward Kennedy and some other members of Congress. I believe this represents a 180 degree turn in the wrong direction--a direction that could lead to ever greater debts for students, higher tuition, and growing federal intervention in both public and private higher education.

As Jon Fuller, president of the Great Lakes College Association, said, the Tuition Advance Fund approach could lead parents, private donors, and the taxpayer to abandon support of both public and private higher education, leving ever-greater burdens to the student. Additionally, several bankers and economists who reviewed the TAF plan estimate that it would never become self-supporting, and could, in fact, end up costing something in the range of $90 billion. This is the result of lending out billions of dollars a year at an effective interest rate of two percent over 30 years.

While the Tuition Advance Fund itself may not be received favorably, other student loan bank ideas are being put forward. We believe that all such plans for paying for higher education through long-term student debts are grievisously wrong.

The fact that such plans are being broached--and receiving a hearing--is an indication of the magnitude of the tuition problem and the degree of desparation to deal with it. But I do not think we can allow this desparation to force us into ill-considered schemes that violate the fundamental principles of equal opportunity and access upon which our system of public higher education is based.

We must continue to preserve, and even to strengthen, low tuition as the keystone of the American educational system. We must support both federal and state programs which accomplish this purpose.

I think it is vital that policy-makers study ways to encourage states and colleges to hold tuition down. One idea suggested by our Association is a "tuition cap." An incentive institutional payment to public and private colleges which succeed in holding tuition levels. Alternatively, there could be an incentive payment for maintenance of effort, made to public and private colleges which continue to spend as much in constant dollars per student for instruction, and which do not substitute federal student aid dollars for state or institutional dollars. We do not believe that Congress intended that federal student aid should be used to encourage colleges to raise tuition. However, this phenomena is not beyond the realm of possiblity. Speaking to the recent American Council on Education meeting, Senator Jacob Javits said that if a federal tuition tax credit became law in the future, he strongly hoped that colleges would not simply raise their tuition to "capture" it. He indicated that Congress would not look favorably on such a development. While he did not mention federal student aid, the same caveat would apply.

The student aid stragey should rest as much as possible on grants and work-study. The recent expansion of BEOG to middle-income families and the additional appropriations voted for college work-study and SEOG should help to achieve this purpose.The greater availability of BEOG money should free more college work-study and other campus-based aid for middle-income students; and the adoption of the more generous needs analysis formula for BEOG, if applied to the campus-based programs, would expand eligibility for college work-study. Additionally, greater help should be given to low-income students who are discriminated against by the half-cost formula.

These latter points all deal with the concept of student aid as a supplement to low tuition, not a substitute. I do not think that a student aid strategy can offset the opportunity and access that would be lost if we were to abandon the principle of low tuition.

I have not dealt with all the questions which are inherent in the relationship of tuition, student aid, and opportunity. I don't think any one paper or presentation could. I have tried to state that there is still a very strong case for low tuition in America. I hope--and I strongly urge--that any future deliberations of financing, access, and enrollment use low tuition as the basis for policy making.

Student aid can not and must not become the justification for high tuition. We must reject proposals to shift more and more of the costs of higher education to students and their families through higher tuition.

The alternative to rising costs is a united effort by all of us in higher education to remind the people of our country that higher education is primarily, a benefit to our entire society--an investment in everybody's future--and that our colleges are worth supporting.